Acquisition Reform — Accelerating the Journey

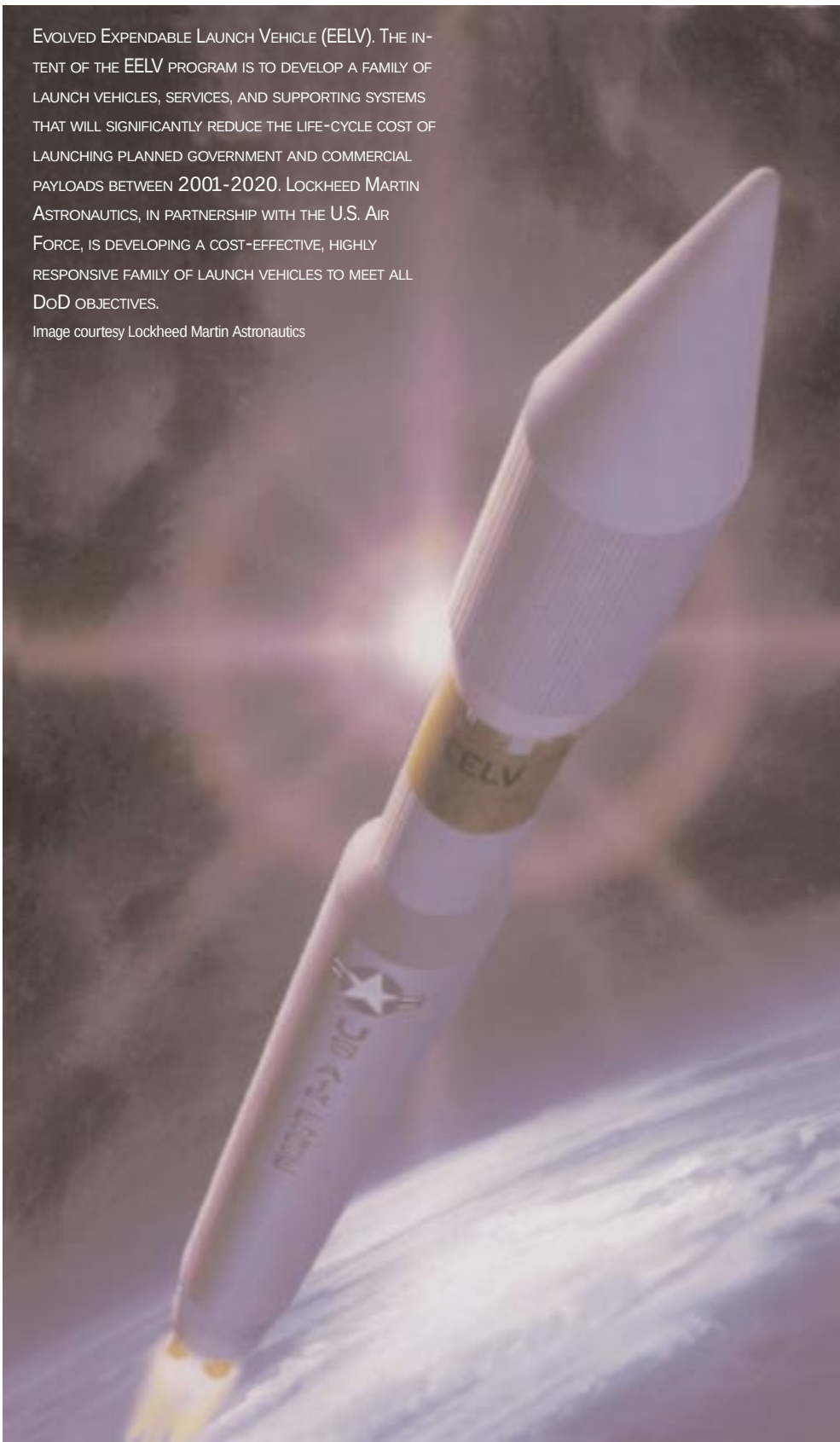
"The Pentagon Has Finally Learned How to Shop"

Editor's Note: Under Secretary of Defense (Acquisition & Technology), Dr. Jacques S. Gansler, spoke Jan. 28. at the American Institute for Aeronautics and Astronautics (AIAA) Executive Forum, held at the Washington Hilton and Towers, Washington, D.C. This information is in the public domain and may be viewed at **http://www.acq.osd.mil/ousda/speech** on the Internet.

A lot has changed since I spoke to you at my first AIAA forum last year. But one thing that has not changed is our continuing commitment to the Revolution in Military Affairs and the Revolution in Business Affairs. This morning, therefore, I would like to take a few minutes to bring you up to date on our progress in achieving these dual revolutions – both in what we buy and how we pay for it; our successes; our lack of success in some instances; some areas where we have special concerns; and our vision for the future. Overall, I am pleased that, while we have certainly not reached the full potential of these dual revolutions, we are making steady progress toward that goal. However, what I hope to impart to you this year is the **urgency** of accelerating that progress, due to the extremely dangerous international environment.

Time Is No Longer On Our Side

The organizers of this year's executive forum have chosen the theme "Accelerating the Journey" to capture the essence of our current acquisition philosophy, as well as our overall DoD strategy. The reason we must accelerate our efforts to accomplish the Revolution in Military Affairs and the Revolution in Business



Evolved Expendable Launch Vehicle (EELV). The intent of the EELV program is to develop a family of launch vehicles, services, and supporting systems that will significantly reduce the life-cycle cost of launching planned government and commercial payloads between 2001-2020. Lockheed Martin Astronautics, in partnership with the U.S. Air Force, is developing a cost-effective, highly responsive family of launch vehicles to meet all DoD objectives.
Image courtesy Lockheed Martin Astronautics

Affairs is simple: time is no longer on our side. Not too long ago, we could refer to "future" or "predicted" threats emerging in the early years of the 21st century. Events of the past year—the North Korean missile launch, the attacks on our embassies, the nuclear explosions in India and Pakistan, the repeated cyber attacks on DoD information systems—all these have made us painfully aware that those threats are with us now. We are reminded daily that we are living in a very dangerous world—full of both unpredictable emerging events and an uncertain future.

Preparing for that uncertain future is certainly no easy task. Given the nature of the likely threat we face, our acquisition and technology goals focus on three vital priorities: first, to equip the **warfighter** to assure our security and withstand any potential threat; second, to **accelerate, broaden, and institutionalize acquisition reform** in order to improve our ability and resources to provide those weapons; and, third, to **modernize our logistics** to cut costs, infrastructure, and cycle time in support of our 21st century forces.

Each of these three objectives must, in turn, meet essential requirements of our national security: maintaining short-term readiness (we might be at war at any time); providing for long-term readiness by modernizing our warfighting capability for likely future conflicts; reducing the time it takes to accomplish both; and doing all this at significantly lower cost.

Facing Reality

As we address these challenges, we must, first of all, face the reality that, for the next decade, the vast majority of the systems we will use are those that are already deployed. At the end of the Cold War, we stopped modernizing—allowing our procurement account to plummet by around 70 percent (only recently allowing it to start creeping back up). Thus, today we are spending tens of billions annually to maintain our aging and overworked equipment. Some of our existing Chinook helicopters, for example, although upgraded, are more than 30 years old—many of them saw service in Vietnam.

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The most serious short-term readiness challenge, therefore, is to improve the reliability of the equipment in the field. It's relatively easy to obtain budget priority for performance improvements on current systems—extending the range of a radar, for example. Yet, it's very difficult to get priority treatment for reliability improvements. We need to give reliability enhancements to current systems a higher priority and begin to set aside funds for such improvements. It's difficult, because it requires up-front money. But it will have a three-fold benefit. Increased reliability will have a direct effect on lowering our future maintenance costs while simultaneously increasing readiness. And it will create added dollars to shift into modernization.

The longer we delay reliability enhancements, the more it will cost to support our aging weapons and equipment. If we fail to act now, we will never be able to come out of what I have described as the "death spiral" of escalating support costs and deteriorating equipment. Failure to act now will not only mean delays in fielding new systems, but also cancellation of some programs, due to the requirement to allocate these scarce funds to existing weapons and equipment. Reliability enhancements of our current systems, therefore, are key to our long-term modernization efforts.

Some Relief in Sight

The president has announced that we will get some relief in our budgeting top line this year. He will propose a $12 billion increase in defense spending, most of which will go to finance our involvement in peacekeeping operations in Bosnia, near-term readiness, and pay adjustments. This will help us to solve some of our **near-term** problems, but not all. To ensure long-term readiness, we must cut costs and improve performance, **regardless** of any short-term increase in budget top lines. We have no choice. We cannot and should not assume that we can expect significant budgetary allocations to provide both the funds we need to maintain our current readiness **and** those required to modernize our aging equipment in order to sustain long-term readiness. There is no doubt that we must continue to embrace proven cost-reduction practices as we seek to generate additional funds for modernization and combat.

The need to cut costs makes it essential that we keep up the momentum to convince the Congress that we need two more rounds of BRAC [Base Realignment and Closure]. By doing so we can achieve savings of $20 billion by the year 2015.

I realize that our congressional oversight committees have warned us not to come up to the Hill pleading for additional BRAC authority – stating that "we are simply beating the proverbial dead horse." **But we must and we will.** We will request new BRAC authority from the Congress this year.

The savings from the initial four rounds of BRAC have already been spectacular and well documented. Through FY'01 (the last year of implementation for the fourth round of BRAC), we will have gained a net savings of $14 billion and can expect an additional $5.6 billion per year thereafter. In fact, independent studies have shown that the costs of these rounds of BRAC were overstated; the savings underestimated; and that, when the communities involved stepped up to the task, recovery was much greater and faster than had been expected. There is **no doubt** that we can generate additional, significant savings from two more rounds. There is **no question** that, by becoming more competitive and eliminating our excess capacity, the DoD can support our warfighters much more efficiently and yet much more effectively – providing optimum performance at much lower cost.

No. 1 Priority – Weapons and Equipment

All this talk of cutting infrastructure and reducing costs is not just another "budget drill." It is part of a blueprint designed to assure our present and future national security and absolutely essential to meet my **No. 1 Priority** – providing the weapons and equipment our combat forces and our allies will need to meet our strategic objectives in 2010 and beyond. One of the difficulties of my job is that I must always be looking with one eye to the day ahead and another eye to the distant future – 10 or 20 years down the line. What do we need to serve the warfighter now **and** ensure our national security well into the 21st century?

There are five weapons-oriented goals we are working to address:

First, in the information area, to achieve an interoperable, integrated, secure, and "smart" Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance **(C4ISR) infrastructure** that encompasses both strategic and tactical needs.

Second, in the "strike" area, to develop and deploy – in sufficient quantities – long-range, all-weather, low-cost, precise, and **"brilliant" weapons** for both offensive and defensive use.

Third, to **achieve rapid force projection,** global reach, and greater mobility for our forces. With uncertainty over where they will be required, and the need for extremely **rapid response** to a crisis anywhere in the world, this capability – when combined with the first two elements – will provide us with overwhelming military superiority.

Fourth, to develop and deploy credible deterrents and, if necessary, military defense against projected, **less traditional early 21st century threats** – which include: biological, chemical, and nuclear weapons; urban combat; information warfare; and large numbers of low-cost ballistic and cruise missiles. These threats represent priority issues for our resources – even if it means impacting some of our more traditional areas.

Fifth and finally, to achieve not only **inter-Service jointness,** but also **interoperability with our allies.** This is essential for coalition warfare and even more important given the realization that coalition-driven operations will become the norm, rather than the exception, in the future. We must ensure that their technologies complement those of our forces. To accomplish our goal of information superiority, we are taking steps to make certain that the C4ISR systems and advanced weapons – such as theater missile defense systems – are fully interoperable.

These five working priorities form the backbone of the Revolution in Military Affairs. Our warfighters must have the weapons they need, when they need them. Our job is to provide those systems and to make sure they are "affordable." To pay for these new systems, as you know, we are engaged in an equally important Revolution in Business Affairs.

No. 2 Priority – Acquisition Reform

My second priority goal, as Under Secretary of Defense for Acquisition and Technology, is the vital challenge of acquisition reform – in its broadest context – for all the Services, and for the Department of Defense, as a whole.

There is no question that DoD is a much different place today than it was five years ago and even one year ago. As *Fortune Magazine* put it in a December issue: the Pentagon has finally learned how to shop. We still have a long way to go and, as I noted earlier, some serious concerns about our ability to sustain long-term readiness due to the demanding short-term maintenance and repair needs of our aging equipment. But, on most fronts, we can report progress and substantial successes in transforming the way the Department does its business: in areas such as use of commercial practices and distribution systems to satisfy materiel acquisition and support requirements; more competitive sourcing of current in-house work; and greatly expanded purchase of common-use, commercially available, goods and services.

In the cost area, two of our specific objectives are to achieve, or under run, the lower targets set (under "Cost As An Independent Variable") for at least half of the weapon systems programs undergoing acquisition by the Year 2000, and to reduce the annual support cost per fielded weapon system by 20 percent by the year 2005 (as compared to the 1997 baseline).

To achieve these targets, we are seeking increased competition in both development and support. Let me give you just two programmatic examples of how we are completely transforming the way we are doing business. I will start with an Air Force program: the EELV.

The Air Force has used creative-business approaches to ensure very impressive savings while modernizing the way we

launch vehicles into space using an Evolved Expendable Launch Vehicle, or "EELV." Instead of using traditional sole-source acquisition after a down selection of competitors, and subsequent procurement of separate production and launch operations, we have awarded Lockheed Martin and Boeing competing development contracts and subsequent "launch service" contracts. This continuous competition for the life of the program and the purchase of "launch services" will bring both lower costs and increased producer expertise. Significant cost efficiency will also come from interface standardization that will provide the EELV with the ability to carry both military and commercial payloads. Because of the commonality, with the commercial flights expected to be two-thirds of the total, the contractors will be investing two-thirds of the development costs. And, since the EELV will reduce the cost of launching by at least 25 percent over current Delta, Atlas, and Titan systems, there will be DoD savings of $6 billion in launch costs between 2002 and 2020.

Let me give you one more example.

The Navy's DD21 program has not only showcased a new way of doing business for our surface ship acquisition community, but it has also put several key ideas for reforming acquisition to work in a "real world" laboratory.

Significant DD21 program reform initiatives have included an acquisition approach that leverages industry competition and innovation. Breaking up the so-called "dream team" of Bath Iron Works, Ingalls, and Lockheed Martin and, instead, requiring competition in the initial concept phase of the program between teams of shipbuilders and system integrators, assures us the best of weapon-system ideas at the lowest future production and support costs—the award criteria. Allowing the teams to enjoy maximum design flexibility has allowed us to mitigate risks and future costs while optimizing systems' capabilities. Then, requiring shipyard competition on the winning design, between the two remaining yards, will provide us with assured competitive production procurements.

As a result of Defense Reform Initiative directives, we have been and will continue to evaluate our entire acquisition process to determine which functions are commercial in nature (that is, not inherently governmental) and can therefore be subject to public/private competition—financial functions, personnel services, housing, disposal of surplus property, drug testing laboratories, various installation services, much CONUS maintenance, and lots more.

All of this will be a difficult cultural change for the Department. Yet, it is absolutely necessary. We have many lessons to learn from you in the private sector and valuable insights to gain into the practices of modern, world-class companies. This does not mean that the DoD should become a business. It means that we want to do our job better by using appropriate lessons learned from the private sector. We are the world's largest buyer. And we must—in a world of level defense budgets and growing procurement needs—achieve much better performance at greater savings.

Another major objective, as we engage in a Revolution in Business Affairs, is to operate on much faster cycle times in order to make the best use of continuing advances in technology. Shorter cycles also reduce costs dramatically. Our goal is to reduce the average acquisition cycle time (measured from program start to initial operating capability) for all program starts in FY 1999 and beyond by 50 percent over historical averages.

The Department of Defense is not, as I have said, a business, but in those areas where our efforts mirror private-sector initiatives we must examine, adapt, and learn. Those examinations, and the lessons learned, are already bearing fruit. The Defense Logistics Agency has experimented with a program through which more than 5,000 Defense Department items are stocked at Federal Express' 120,000-square-foot warehouse in Memphis, Tenn. The coordinated efforts of DoD and FedEx have brought about the following significant improvements: 24 hours for domestic delivery, 48 hours for overseas delivery, 99.9 percent accuracy, 98 percent on-time delivery, and total asset visibility.

This example is just one way in which we can improve our logistics system.

No. 3 Priority – Modernizing Defense Logistics

Modernization of our defense logistics is my third priority goal—it can have a dramatic, positive performance impact while literally saving billions of dollars annually. At the present time, more than one-third of the U.S. Department of Defense total budget is earmarked for logistics.

Almost 50 percent of our 2.1 million DoD personnel are in logistics. (In fact, military logistics support personnel outnumber active combat forces by two to one.) Here, as has been clearly demonstrated by world-class commercial logistics organizations, modern technology can come to our aid—dramatically reducing inventory, personnel, and response times. During the past year, we have put in place the expert staff and planning designed to begin a massive transformation of our entire logistics system. That process will remain a top priority and an essential complement to our acquisition reform efforts.

A major logistics objective is to bring about reductions of order-to-receipt time from the current 36-day average—with wide, unpredictable, variations—to under 18 days by the end of FY 2000 (a 50-percent reduction), with far fewer military and civilian personnel and significantly lower inventory levels, and with much greater confidence levels. This means that our warfighters can have confidence that, once ordered, essential items needed for planning, preparing, and participating in operations will actually be there when expected. Information technology and rapid transportation are the keys to improved logistics performance at much lower cost.

It will be difficult to transform defense logistics (some say from a 1950's model) into the modern era, but the potential performance improvements and the cost savings are so spectacular that the effort is clearly worthwhile.

Efforts Are Well Underway

As I noted at the beginning of my remarks, when I took on the responsibilities of this office, I described my goals and priorities for Acquisition and Technology: what I thought was needed to "accelerate the journey," to expand our role in bringing about the Revolution in Military Affairs and paying for it with the Revolution in Business Affairs. Today, a little more than one year later, I am pleased that this effort is well underway. We have had many successes; some failures; and a lot of hard work yet to do. But I am optimistic that we can succeed.

Transformation of the Department of Defense is not an easy job. And to accomplish it, we also need the commitment and support of you in industry. Defense modernization is the key to our nation's ability to meet the challenges posed by emerging threats. Secretary Cohen has made a personal commitment to this effort. Successful industry restructuring has given new vitality to America's world-class commercial enterprises. Our reforms and restructuring — in both DoD and the defense industry — must be equally energetic. We pledge to work closely with you in industry to accelerate and institutionalize acquisition and system modernization reforms.

I might also add that, when we talk about major world-class companies, we should also acknowledge the contribution of small business as a key player in our overall defense mission. The small business community today provides 20 percent of our prime contract requirements and accounts for more than 40 percent of our subcontracting requirements. It is extremely important, as we move through each discussion panel of this conference, that we reflect on how the topic relates to small business.

Government Needs Industry's Help

In conclusion, I repeat my earlier statement about the need for a sense of urgency in accomplishing needed reforms: The threat to the United States by the forces of terrorism and from rogue nations is not an illusion or even a possibility. It is real and it is with us now. That is the message of our recent decisions, for example, concerning the National and Theater Missile Defense systems and our commitment to increased funding for them.

Our overall objective is to pursue a policy that has the compelling force to enable us to act strategically before the forces of terrorism and lawlessness compel us to do so. The industry-government partnership we foster at forums such as this are designed to facilitate our ability to reach that goal. I know that I can count on each and every one of you to help us.

WHAT'S NEW?

1997-1998 DSMC Research Fellows Report *Simulation Based Acquisition — A New Approach*

Convincing program managers that Simulation Based Acquisition (SBA) is a smarter way of doing business is the goal of the 1997-1998 DSMC Research Fellows Report. The report defines SBA, explains its strengths, and describes forces that encourage its use. It also includes best practices and guidance for implementing SBA — a new way of doing business that couples rapid advances in simulation technology with process change.

Fully digitized Military Research Fellows Reports, 1994 through 1998, are available on the DSMC Web site at **http://www.dsmc.dsm.mil/pubs/mfrpts/mrflist.htm** on the Internet. Hard copies may be requested by faxing the DSMC Distribution Center: Commercial (703) 805-3726; DSN 655-3726.